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25X1

5 October 1973

Central Intelligence Bulletin

CONTENTS

ISRAEL-AUSTRIA: Tel Aviv will maintain pressure on Vienna. (Page 1)

AUSTRIA: Vienna looks for middle road on refugee problem. (Page 3)

25X1

USSR-SYRIA: Moscow reportedly has given Syria reconnaissance helicopters. (Page 7)

WEST GERMANY: Defense spending next year to be up about 3 percent in real terms. (Page 8)

25X1

JAPAN-US: Tokyo invests in US textile industry. (Page 10)

USSR-JAPAN: Tanaka's mission to Moscow. (Page 11)

FOR THE RECORD: (Page 16)

25X1

ISRAEL-AUSTRIA: Tel Aviv, while probably exploring other routes to Israel for Soviet Jewish emigrants, intends to maintain pressure on Vienna to reverse its decision to close the Schoenau transit center.

The Israeli cabinet, after a special session on 3 October, termed Austrian Chancellor Kreisky's decision to close Schoenau "not satisfactory." The cabinet indicated that it would continue to demand restoration of the passage rights without any restrictions on the length of stay or on Israeli administration of the center. The Israeli ambassador to the US has informed US officials that Israel "had not given up on Austria" and hinted that continued pressure might succeed.

The ambassador gave his personal view that expansion of the exit route through Romania would be difficult. The Dutch, while voicing sympathy with Israel, have made no official offer to open a substitute center. They are apparently awaiting Vienna's final decision. A Dutch Foreign Ministry official has indicated that, considering the distances involved, "it would make little sense" to establish an emigre reception point as far removed from the exodus route as the Netherlands.

Unimpeded emigration of Soviet Jews is of great importance to Israel. Between the end of 1968, when Moscow decided to permit the resumption of Jewish emigration that had been closed off after the break in diplomatic relations in 1967, and the end of 1972, some 50,000 Soviet Jews have entered Israel. In 1972, the nearly 32,000 Soviet emigres represented close to 60 percent of all immigrants arriving in Israel. So far in 1973, the rate has been some 10 percent higher than last year.

Elated by the success of the operation in Austria last weekend, the fedayeen and their supporters may now envisage the possibility of entirely halting Soviet emigration to Israel by pressuring Vienna and

5 Oct 73

Central Intelligence Bulletin

1

25X1

Moscow. The Arab press has printed statements, ostensibly from the terrorists, threatening that a "backdown would not serve Austria's interests and stability or its citizens' security," and warning that the "friendly Soviet Union will be a target for the strikes of our guerrillas unless it stops emigration operations to Israel." These fedayeen elements may be emboldened to strike against any of the parties involved in the emigration process, despite the obvious threat of severe Israeli retaliation and of future curtailment of indirect Soviet support to the moderate fedayeen groups. The two terrorists who mounted the operation, calling themselves the Eagles of the Palestinian Revolution, remain in Libya, unclaimed by any major guerrilla leader or organization.

25X1

5 Oct 73

Central Intelligence Bulletin

2

25X1

AUSTRIA: Under pressure from foreign and domestic critics, the Kreisky government is searching for ways to preserve Austria as an emigration route for Soviet Jews without reneging on its pledge to Arab terrorists to close the Schoenau transit center.

The government's handling of the terrorist incident has tarnished Chancellor Kreisky's reputation abroad and probably will cost his Socialist Party some votes in local elections on 21 October. The Socialists have recently suffered a series of minor electoral setbacks at the provincial level and are struggling to reverse this trend. Much of the initial criticism has dissipated since the government has clarified its position. A recent poll shows that nearly 80 percent of the populace approve Kreisky's decision.

The decision to close the transit center apparently had been under consideration by the government for some time, and the terrorist incident may have provided the impetus. Kreisky explained to US officials that Israeli leaders--notably Prime Minister Meir and Foreign Minister Eban--had visited Schoenau, giving it unwanted publicity and making it difficult to administer the transit center as a low-keyed operation.

25X1

[redacted] Kreisky, with full cabinet approval, thus offered to close the transit center to save the hostages' lives, but rejected subsequent demands by the terrorists to eliminate all transit rights for Soviet Jews.

[redacted]

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5 Oct 73

Central Intelligence Bulletin

3

25X1

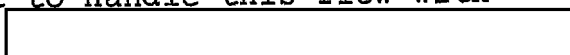
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25X6



Because the number of Soviet Jews passing through Austria is quite high, amounting to 678 last week, it will be difficult to handle this flow without permanent facilities.



25X1

5 Oct 73

Central Intelligence Bulletin

4



25X1

Approved For Release 2004/01/20 : CIA-RDP79T00975A025300160001-3

Next 2 Page(s) In Document Exempt

USSR-SYRIA: Moscow reportedly has given Syria the KA-25 Hormone helicopter. [REDACTED]

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[REDACTED] Syria is the first Soviet military aid recipient to acquire this helicopter, which is used by the Soviets for reconnaissance and utility purposes as well as in anti-submarine operations. The helicopters were probably ordered under the Soviet-Syrian arms agreement of May 1972. Syria has previously received about 40 MI-8 helicopters, 17 of which were delivered earlier this year. [REDACTED]

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25X1

5 Oct 73

Central Intelligence Bulletin

7

25X1

WEST GERMANY: Defense spending next year will be at least 10 percent higher than in 1973, despite a proposed budget increase of only about 7 percent. In real terms, the increase will be about 3 percent because inflation in West Germany is running about 7 percent a year.

During a recent conversation with the US ambassador, Defense Minister Leber said that, although the proposed 1974 defense budget of DM 27.55 billion represented an increase of only 6.7 percent over the 1973 budget, actual spending in 1974 would increase by 10 or 11 percent. He stated that this was because certain personnel-related costs previously carried in the defense budget would be placed under nondefense portions of the 1974 budget.

25X6

5 Oct 73

Central Intelligence Bulletin

8

25X1

25X1

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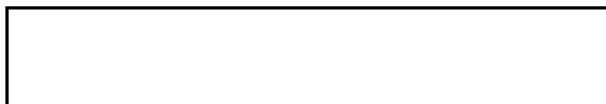
JAPAN-US: Recently announced agreements to establish two large Japanese-owned textile plants in the US will bring to at least eight the number of such plants in the US. These ventures indicate the priority that Japan's textile industry attaches to expanding its investments overseas. The Japanese are seeking to secure their position in foreign markets where they have been adversely affected by currency changes and rising Japanese wages over the past few years, and, in the case of the US market, to circumvent "voluntary" export controls. Plans also have been announced recently to set up textile operations in Brazil, Indonesia, and Mexico, and the Japanese have purchased a controlling interest in a large Canadian textile operation. The Mexican and Canadian ventures will produce goods for sale in the US.

25X1

5 Oct 73

Central Intelligence Bulletin

10



25X1

USSR-JAPAN: Tanaka's Mission to Moscow

Japanese Prime Minister Tanaka arrives in Moscow on Sunday with little prospect of genuine progress on the Northern Territories problem that has burdened Soviet-Japanese relations since the end of the Second World War. Nevertheless, both countries have important reasons to strive for a generally successful summit meeting. Both have a large and growing stake in economic cooperation and the Soviets are also eager to counter improvements in Sino-Japanese relations.

The question of the disputed Northern Territories and a Soviet-Japanese peace treaty will be the key to the visit, although both sides may try to play this down if progress is not possible. In their maneuvering on the issue over the past two years, both sides have shown some flexibility. The Soviets were first to do so. In January 1972, Foreign Minister Gromyko implied in Tokyo that the problem of the Northern Territories was no longer a "closed issue" and could be discussed during future peace treaty negotiations. The Japanese reciprocated a year later, when Tanaka agreed that the territories issue and a peace treaty should be divorced from the talks on economic cooperation in Siberia.

Tanaka's major objective, in visiting Moscow is to move at least somewhat closer to a resolution of the territorial issue, and he publicly signaled last month that there must be progress if the summit is to be a success. This was probably intended to prod the Soviets to be more cooperative rather than to foreclose any chance of progress on other issues. There is some indication that the Soviets have gotten the message. Both Soviet President Podgorny and Soviet Ambassador Troyanovsky have hinted to Japanese officials that Moscow is considering a compromise that would provide for the reversion of two, or even three, of the islands that constitute the "territories"--a term used to designate the Habomai Islands,

5 Oct 73

Central Intelligence Bulletin

11

including Shikotan, and the islands of Etorofu and Kunashiri. The Soviets, however, remain adamant about holding on to Etorofu, which plays a minor role as part of the protective screen that shields the frontiers of the USSR in the Far East. Because the Japanese have been similarly adamant about the return or at least the recognition of sovereignty over all the territories, the likelihood of a compromise may be no better than it was during the last visit of a Japanese prime minister to Moscow in 1956. At that time the Soviets offered to return Shikotan and the Habomais with the conclusion of a peace treaty, but they later withdrew that offer. For the Soviets, bigger issues are involved as well. They realize that the Chinese--with irredentist claims of their own--are encouraging the Japanese from the sidelines, and Moscow is reluctant to encourage Peking's much larger and more important territorial claims.

The Soviets will hope to play down the territorial issue and win Tanaka's reaffirmation of Japanese Government backing for one or more of the major Siberian development projects now under discussion. Even here, however, Japanese negotiating tactics have dictated a cautious approach. Tanaka has said government guarantees will follow when business interests are convinced of the soundness of the projects. He has also been careful to avoid building up domestic expectations on the Tyumen oil or Yakutsk natural gas projects, the major economic issues to be discussed. Tanaka, moreover, is now under less domestic pressure to conclude economic agreements. Japanese industry is operating at high capacity and uncertain foreign projects, such as the Tyumen oil pipeline, do not appear as attractive as they did a year ago.

Although the Japanese are still interested in the Tyumen project, they were startled last month when a Soviet foreign trade official remarked that only 25 million tons of oil would be available to the Japanese annually and not the 40 million tons that they had hoped for. This has further dampened Japanese enthusiasm.

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5 Oct 73

Central Intelligence Bulletin

12

25X1

The Soviets and Japanese have been discussing other cooperative schemes in preparing for the summit, but there are hitches in these talks as well. Japan and the US have already agreed in principle to lend \$150 million to the Soviets for exploration of Yakutsk natural gas, but the terms of credit remain unsettled. Detailed negotiations are still required before any substantial agreement can be reached on the Yakutsk coal project. A Soviet offer of uranium enrichment services to Japan will be brought up, but Tokyo wants more time for detailed study of the Soviet conditions. An agreement that would provide Japan with 16 million cubic meters of Soviet lumber beginning next year is currently held up by disagreement over the price of the lumber. The outcome of negotiations regarding Japanese assistance in the exploration of gas and oil on Sakhalin is also clouded by questions concerning financing.

Given traditional Japanese antagonism and suspicion toward the Soviets, Tanaka will be even more hesitant in his political discussions with Brezhnev. Japan is principally concerned about the impact that Soviet-Japanese relations might have on Tokyo's ties with the Chinese. The Chinese are already disquieted by Japanese involvement in the Trans-Siberian pipeline, which they claim will place them at a strategic disadvantage. From Moscow's point of view, these ties have already placed the Soviets in an unfavorable position in the Moscow-Peking-Tokyo triangle and have led to numerous warnings to Japan about the "dangers and pitfalls" of trying to regularize relations with Peking. Even more to the point is Soviet sensitivity to the prospect that Japan might exploit Sino-Soviet differences to Moscow's disadvantage. In two recent speeches Brezhnev warned other nations against succumbing to this temptation and the Soviet press had earlier warned Japan specifically.

The Soviets are likely to have only modest success in gaining Japanese support for some of their favored schemes. Tanaka is determined to avoid any political agreements that could be used by Moscow to

5 Oct 73

Central Intelligence Bulletin

13

25X1

counter Peking in the Far East. In particular, he intends to resist Soviet pressure to endorse the Asian collective security program that the Soviets revived in the wake of the Vietnam agreement last January. The Japanese insist they cannot even consider Asian security schemes until they have settled their bilateral problems with the Soviets.

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The Japanese press has speculated about the possibility of the principle of nonuse of force being included in the joint communiqué winding up Tanaka's visit,

25X1

Although the major problems are unlikely to be resolved at the summit, both sides will be able to claim some political and economic concessions. Tanaka can afford to reaffirm his endorsement in principle of joint Siberian projects and may even agree to a more generalized economic cooperation agreement, similar to Soviet agreements with France and West Germany. In return, the Soviets may be willing to complete an agreement on Japanese fishing operations in the Northern Territories area. The Soviet release of nearly 50 Japanese fishermen late last month--an obvious goodwill gesture before Tanaka's arrival--suggests that the Soviets may be forthcoming on some issues. In another such gesture several days ago, the Soviets suddenly canceled the scheduled launching of weather rockets in the Pacific Ocean during Tanaka's visit. Tokyo reportedly had asked the Soviets to call off the launchings.

In any event, neither Brezhnev nor Tanaka will want the visit to appear a failure. The Soviets must prove that they are keeping pace with the Chinese in improving relations with Tokyo; the Japanese would like to show their willingness to improve relations with the USSR, and to demonstrate even-handed

5 Oct 73

Central Intelligence Bulletin

14

25X1

relations with the USSR and China. Economically, the Soviets need capital to exploit the wealth of Siberia and the Japanese need a diversification of their sources of raw materials. The summit could, therefore, lead to a new round of lower-level talks on political and economic subjects. Both sides might find this the best way of covering up the likelihood that the summit will not resolve their major differences.

25X1

The Director of Intelligence and Research, Department of State, does not concur in the judgment that there is little prospect of achieving genuine progress in resolving the Northern Territories problem at the Soviet-Japanese summit meeting. Final decisions on the amount of give and take on each side are not likely to be made until the Tanaka-Brezhnev face-to-face encounter is in progress. While Tanaka is himself not under any great pressure to return home with results, the USSR has a major interest in advancing its economic relationship with Japan and in diverting Tokyo from substantial deepening of PRC-Japanese ties. There is a chance of perhaps two in five that these factors could lead to some concessions on the Soviet part which would move the Northern Territories problem a good distance forward, and there have in fact been several Soviet trial balloons in the past several months on this subject which have come surprisingly close to Japanese requirements.

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25X1

5 Oct 73

Central Intelligence Bulletin

15

25X1

FOR THE RECORD*

25X1

USSR-US: A Soviet delegation headed by the minister of the automotive industry is in the US-- at the invitation of Dr. Armand Hammer of Occidental Petroleum--to visit auto and truck plants and firms supplying equipment for Kama. [REDACTED]

25X1

**These items were prepared by CIA without consultation with the Departments of State and Defense.*

5 Oct 73

Central Intelligence Bulletin

16

25X1

Top Secret



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